

STATE OF LOUISIANA

DEPARTMENT OF ENVIRONMENTAL QUALITY

IN THE MATTER OF:

DENBURY RESOURCES, INC.

AI # 32111, 32112, 32264, 32984, 94430, 100310

**PROCEEDINGS UNDER THE LOUISIANA
ENVIRONMENTAL QUALITY ACT**

LA. R.S. 30:2001, ET SEQ.

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Enforcement Tracking No.

AE-CN-04-0088

SETTLEMENT

The following Settlement is hereby agreed to between Denbury Resources, Inc. ("Respondent") and the Department of Environmental Quality ("DEQ" or "the Department"), under authority granted by the Louisiana Environmental Quality Act, La. R.S. 30:2001, et seq. ("the Act").

I

Respondent is a corporation who operates numerous oil and gas production facilities located in several parishes in Louisiana ("the Facilities").

II

The Respondent owns and/or operates the Potter-Parker Central Facility (Agency Interest Number 94430), a crude petroleum and natural gas production facility, located three miles south of Thornwell, in Jefferson Davis Parish, Louisiana. The facility currently operates under Standard Oil and Gas Air Permit Number 1360-00118-01, issued February 11, 2003.

On or about January 26, 2004 an inspection of the Respondent's Potter-Parker Central Facility was performed to determine the degree of compliance with the Act and the Air Quality Regulations.

The following violations were noted during the course of the inspection:

- A. At the time of the inspection, the 930-hp compressor engine (Emission Point 21-02-ICE-ES) was operating; however, the switch on the air/fuel ratio control panel, which regulates the air/fuel mixture to the catalytic converter, was switched to the "off" position. The catalytic converter control device was not in operation while the compressor engine was in operation. In correspondence with a facility representative, it was determined that the catalytic converter was not in operation due to the need for repair. According to the representative the repairs were performed on January 28, 2003; however, during two follow-up inspections, conducted on or about January 29, 2004, and February 11, 2004, the switch on the air/fuel ratio control panel was in the "off" position while the engine was in operation. The facility failed to use and maintain control facilities in proper working order when emissions were being made which could be controlled by the facilities. Each failure to use and maintain the control facilities is a violation of LAC 33:III.905 and Sections 2057(A)(1) and 2057(A)(2) of the Act.
- B. The Continuous Burn Flare (Emission Point 8-01-F) is required to comply with LAC 33:III.1105, which stipulates that smoke emissions be controlled so that the shade or appearance does not exceed 20% opacity for a total of six hours in any 10 consecutive days. During the inspection it was noted that the flare was smoking. The facility has no record of monitoring for the visual presence of smoke or records of past monitoring available for review. The facility failed to monitor during the visual presence of smoke as stated in Table 3 of the permit application. This is a violation of General Condition I of Permit Number 1360-00118-01, LAC 33:III.501.C.4, and Section 2057(A)(1) of the Act.

The Respondent owns and/or operates Lacassine Co. No. 2 Production Facility (Agency Interest Number 100310) a crude petroleum and natural gas production facility located one and one-half miles northwest of Lowry, in Cameron Parish, Louisiana. The facility currently operates under Standard Oil and Gas Air Permit Number 0560-00178-00, issued on January 14, 2003.

On or about January 29, 2004 an inspection was performed to determine the degree of compliance with the Act and the Air Quality Regulations.

The following violation was noted during the course of the inspection:

At the time of the inspection, a glycol spill was observed underneath the glycol dehydration unit. The Respondent failed to maintain best practical housekeeping and maintenance practices at the highest standards to reduce the quantity of organic compounds emissions. This is a violation of Facility Specific Requirement Number 28 of Air Permit Number 0560-00178-00, LAC 33:III.501.C.4, LAC 33:III.2113.A and Sections 2057(A)(1) and 2057(A)(2) of the Act.

On June 9, 2004, the Department issued a Consolidated Compliance Order and Notice of Potential Penalty, Enforcement No. AE-CN-04-0088, to Respondent, which was based upon the following findings of fact:

The Respondent owns and/or operates the Tank Battery No. 4/ Compressor Station 1 & 3 (Agency Interest No. 32111), an oil and gas production facility located approximately five and one-half miles southwest of New Iberia in Iberia Parish, Louisiana. The Respondent assumed ownership of the facility on or about December 1, 2000. The facility operated under Title V Permit No. 1260-00066-V1 issued on August 11, 1998, and which expired on July 3, 2001. A request to rescind this permit and include the emissions and operations from this facility into the Title V Permit for Tank Battery No. 1/ Compressor Station No. 2 was submitted to the Department on or about February 6, 2002.

On or about March 24, 2004, a file review of the Respondent's facility (Agency Interest No. 32111) was performed to determine the degree of compliance with the Act and Air Quality Regulations.

The following violations were noted during the course of the review:

- A. The expiration date of the Respondent's operating permit was July 3, 2001. A permit renewal application was to be submitted to the Department no later than six months prior to the expiration date of the permit. The Respondent failed to submit an application for renewal of Title V Permit No. 1260-00066-V1 to the Department by January 3, 2001. Failure to submit the Title V permit renewal application at least six months prior to the date of permit expiration is a violation of LAC 33:III.507.E.4, Part 70 General Condition A of Title V Permit No. 1260-00066-V1, LAC 33:III.501.C.4, and Section 2057(A)(2) of the Act.
- B. As stipulated in LAC 33:III.507.E.3, unless renewed in accordance with Section 507 of the Air Quality Regulations, permits issued under Section 507 shall expire at the end of the effective duration. Therefore, the Respondent has been operating the facility without a permit since July 3, 2001. This is a violation of LAC 33:III.501.C.2 and Sections 2057(A)(1) and 2057(A)(2) of the Act.
- C. The Department received the Respondent's semiannual monitoring report dated November 16, 2001, for the period encompassing January through June 2001. The Respondent failed to submit the semiannual monitoring report to the Department by September 30, 2001. This is a violation of Part 70 General Condition K of Title V Permit No. 1260-00066-V1, LAC 33:III.501.C.4, and Section 2057(A)(2) of the Act.
- D. According to the Respondent's 2001 annual compliance certification dated March 11, 2002, VOC emissions from the Triethylene Glycol Storage Tank and the Methanol Storage Tank (Emission Sources 14 and 15) were higher than the permitted rates of less than .001 tons per year and .004 tons per year, respectively, as a result of an increase in processed oil volume. Each exceedance of the permitted VOC limits is a violation of General Condition II of Title V Permit No. 1260-00066-V1, LAC 33:III.501.C.4, and Sections 2057(A)(1) and 2057(A)(2) of the Act.

The Respondent owns and/or operates the Tank Battery No. 1/ Compressor Station No. 2 (Agency Interest No. 32112), an oil and gas production facility located on Louisiana Highway 86, approximately four miles east of New Iberia in Iberia Parish, Louisiana. The Respondent assumed ownership of the facility on or about December 1, 2000. The facility operated under Title V Permit No. 1260-00067-V0 issued on May 30, 1997, and which expired on May 30, 2002. An

application for renewal and modification of the permit was submitted to the Department on or about February 6, 2002.

On or about March 24, 2004, a file review of the Respondent's facility (Agency Interest No. 32112) was performed to determine the degree of compliance with the Act and Air Quality Regulations.

The following violations were noted during the course of the review:

- A. The expiration date of the Respondent's operating permit was May 30, 2002. A permit renewal application was to be submitted to the Department no later than six months prior to the expiration date of the permit. The Respondent failed to submit an application for renewal of Title V Permit No. 1260-00067-V0 to the Department by November 30, 2001. Failure to submit the Title V permit renewal application at least six months prior to the date of permit expiration is a violation of LAC 33:III.507.E.4, Part 70 General Condition A of Title V Permit No. 1260-00067-V0, LAC 33:III.501.C.4, and Section 2057(A)(2) of the Act.
- B. As stipulated in LAC 33:III.507.E.3, unless renewed in accordance with Section 507 of the Air Quality Regulations, permits issued under Section 507 shall expire at the end of the effective duration. Therefore, the Respondent has been operating the facility without a permit since May 30, 2002. This is a violation of LAC 33:III.501.C.2 and Sections 2057(A)(1) and 2057(A)(2) of the Act.
- C. The Department received the Respondent's semiannual monitoring report dated November 16, 2001, for the period encompassing January through June 2001. The Respondent failed to submit the semiannual monitoring report to the Department by September 30, 2001. This is a violation of Part 70 General Condition K of Title V Permit No. 1260-00067-V0, LAC 33:III.501.C.4, and Section 2057(A)(2) of the Act.

The Respondent owns and/or operates the Guidry 21 No. 1 Production Facility (Agency Interest No. 32264), an oil and gas production facility located approximately one and one-half miles southeast of Thornwell in Jefferson Davis Parish, Louisiana. The facility operated under Title V Permit No. 1360-00076-V0 issued on March 28, 2002. An application to modify the

facility was submitted to the Department on or about July 16, 2002. Additional information regarding the modification application was submitted on or about April 2, 2003. Standard Oil and Gas Permit No. 1360-00076-01 was issued on May 6, 2003, and is the current operating permit for the facility.

On or about March 24, 2004, a file review of the Respondent's facility (Agency Interest No. 32264) was performed to determine the degree of compliance with the Act and Air Quality Regulations.

The following violation was noted during the course of the review:

According to the Respondent's 2002 and 2003 annual compliance certifications dated February 17, 2003, and March 17, 2004, respectively, two unpermitted emission sources (Emission Sources 26-02-ICE-ES and 27-02-ICE-ES) were operated at the facility. Each failure to obtain approval from the permitting authority prior to the modification of a facility which ultimately may result in an initiation or increase in emission of air contaminants is a violation of LAC 33:III.501.C.2 and Sections 2057(A)(1) and 2057(A)(2) of the Act. Both emission sources are included in the current operating permit which was issued on May 6, 2003.

The Respondent owns and/or operates the Lirette Common Tank Battery No. 1, (Agency Interest No. 32984), an oil and gas production facility located approximately three-quarter miles east of Pointe Barre in Montegut, Terrebonne Parish, Louisiana. The facility operates under Title V Permit No. 2880-00008-V0 issued on May 6, 2003. An application to modify the facility was submitted to the Department on or about March 3, 2004.

On or about April 6, 2004, a file review of the Respondent's facility (Agency Interest No. 32984) was performed to determine the degree of compliance with the Act and Air Quality Regulations.

The following violation was noted during the course of the review:

According to the Respondent's 2003 annual compliance certification dated March 17, 2004, VOC emissions from the Water Storage Tank (Emission Source 1-02-WST-CV) exceeded the permitted limit of 8.78 tons during the 2003 calendar year. This is a violation of General Condition II of Title V Permit No. 2880-00008-V0, LAC 33:III.501.C.4, and Sections 2057(A)(1) and 2057(A)(2) of the Act. The Respondent submitted an application dated March 3, 2004, to revise the emission limits for Emission Source 1-02-WST-CV.

III

In response to the Consolidated Compliance Order and Notice of Potential Penalty, issued June 9, 2004, Respondent made a timely request for a hearing.

IV

Respondent denies it committed any violations or that it is liable for any fines, forfeitures and/or penalties.

V

Nonetheless, Respondent, without making any admission of liability under state or federal statute or regulation, agrees to pay, and the Department agrees to accept, a payment in the amount of TWELVE THOUSAND FIVE HUNDRED AND NO/100 DOLLARS (\$12,500.00) of which Four Hundred Sixty-five and 94/100 Dollars (\$465.94) represents DEQ's enforcement costs, in settlement of the claims set forth in this agreement. The total amount of money expended by Respondent on cash payments to DEQ as described above, shall be considered a civil penalty for tax purposes, as required by La. R.S. 30:2050.7(E)(1).

VI

Respondent further agrees that the Department may consider the inspection report(s), the Consolidated Compliance Order and Notice of Potential Penalty and this Settlement for the

purpose of determining compliance history in connection with any future enforcement or permitting action by the Department against Respondent, and in any such action Respondent shall be estopped from objecting to the above-referenced documents being considered as proving the violations alleged herein for the sole purpose of determining Respondent's compliance history.

VII

This agreement shall be considered a final order of the secretary for all purposes, including, but not limited to, enforcement under La. R.S. 30:2025(G)(2), and Respondent hereby waives any right to administrative or judicial review of the terms of this agreement, except such review as may be required for interpretation of this agreement in any action by the Department to enforce this agreement.

VIII

This settlement is being made in the interest of settling the state's claims and avoiding for both parties the expense and effort involved in litigation or an adjudicatory hearing. In agreeing to the compromise and settlement, the Department considered the factors for issuing civil penalties set forth in LSA- R. S. 30:2025(E) of the Act.

IX

The Respondent has caused a public notice advertisement to be placed in the official journals of the parish governing authorities in Iberia, Jefferson Davis, and Terrebonne Parishes, Louisiana. The advertisement, in form, wording, and size approved by the Department, announced the availability of this settlement for public view and comment and the opportunity for

a public hearing. Respondent has submitted a proof-of-publication affidavit to the Department and, as of the date this Settlement is executed on behalf of the Department, more than forty-five (45) days have elapsed since publication of the notice.

X

Payment is to be made within ten (10) days from notice of the Secretary's signature. If payment is not received within that time, this Agreement is voidable at the option of the Department. Payments are to be made by check, payable to the Department of Environmental Quality, and mailed or delivered to the attention of Darryl Serio, Office of Management and Finance, Financial Services Division, Department of Environmental Quality, Post Office Box 4303, Baton Rouge, Louisiana, 70821-4303. Each payment shall be accompanied by a completed Settlement Payment Form (Exhibit A).

XI

In consideration of the above, any claims for penalties are hereby compromised and settled in accordance with the terms of this Settlement.

XII

Each undersigned representative of the parties certifies that he or she is fully authorized to execute this Settlement Agreement on behalf of his/her respective party, and to legally bind such party to its terms and conditions.

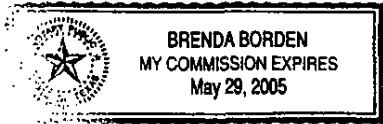
DENBURY RESOURCES, INC.

BY: H. Hyl
(Signature)

H. H. RAYMOND DUBUISJON
(Printed or Typed)

TITLE: VICE PRESIDENT-LAND

THUS DONE AND SIGNED in duplicate original before me this 7th day of
March, 20 05, at Plano, Texas.



Brenda Borden
NOTARY PUBLIC (ID # _____)

Brenda Borden
(Printed or Typed)

STATE OF LOUISIANA
Mike D. McDaniel, Ph.D., Secretary
Department of Environmental Quality

BY: Harold Leggett
Harold Leggett, Ph.D., Assistant Secretary
Office of Environmental Compliance

THUS DONE AND SIGNED in duplicate original before me this 1 day of
June, 20 05, at Baton Rouge, Louisiana.

[Signature]
NOTARY PUBLIC (ID # 2672)

G Allen Kirkpatrick
(Printed or Typed)

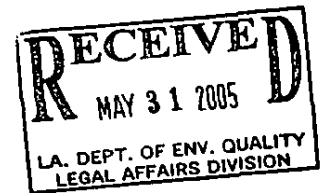
Approved: Harold Leggett
Harold Leggett, Ph.D., Assistant Secretary



CHARLES C. FOTI, JR.
ATTORNEY GENERAL

State of Louisiana
DEPARTMENT OF JUSTICE
P.O. BOX 94005
BATON ROUGE
70804-9005

May 23, 2005



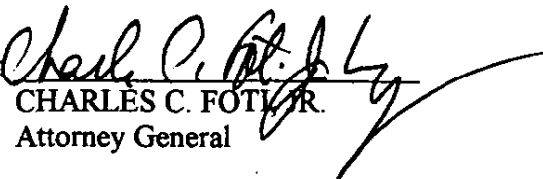
Mr. Herman Robinson, Executive Counsel
La. Department of Environmental Quality
Legal Affairs Division
P.O. Box 4302
Baton Rouge, LA 70821-4302

Re: AG Review of DEQ Settlement;
Denbury Resources, Inc.
AE-CN-04-0088

Dear Mr. Robinson:

Pursuant to the authority granted to me by Art. IV, Sec. 8 of the state constitution and R.S. 30:2050.7(E)(2)(a), I approve the above referenced settlement.

Sincerely,

By 
CHARLES C. FOTI, JR.
Attorney General

CCF/mlc